

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name SOUTHEAST PUBLIC SAFETY AUTHORITY	County CASS
Audit Date 3-31-2006	Opinion Date MAY 2, 2006	Date Accountant Report Submitted to State JUNE 5, 2006		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Authority of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Karl L. Drake, CPA			
Street Address 3775 Kimmel Road	City Horton	State MI	Zip 49246
Accountant Signature 			

SOUTHEAST PUBLIC SAFETY AUTHORITY

FINANCIAL STATEMENTS

MARCH 31, 2006

SOUTHEAST PUBLIC SAFETY AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southeast Public Safety Authority
Union, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Southeast Public Safety Authority, as of and for the year ended March 31, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Southeast Public Safety Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Southeast Public Safety Authority as of March 31, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2006, on our consideration of Southeast Public Safety Authority's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 21 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southeast Public Safety Authority's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, P.C.
Certified Public Accountant

May 2, 2006

SOUTHEAST PUBLIC SAFETY AUTHORITY

Management's Discussion and Analysis

This section of Southeast Public Safety Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended March 31, 2006. It is best read in conjunction with the Authority's financial statements that follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Southeast Public Safety Authority financially as a whole. The *Government-Wide Financial Statements* provide information about the activities of the entire Authority, presenting both an aggregate view of the Authority's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Authority's operations in more detail than the government-wide financial statements by providing information about the Authority's most significant fund - the General Fund - with all other funds presented in one column as non-major funds.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for the General Fund

(Required Supplemental Information)

Other Supplemental Information

Reporting The Authority As A Whole - Government-Wide Financial Statements

One of the most important questions asked about the Authority is, "As a whole, what is the Authority's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Authority's financial statements, report information on the Authority as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Authority's operating results. However, the Authority's goal is to provide services to our residents, not to generate profits as commercial entities do. One must consider many other non-financial factors to assess the overall health of the Authority.

The statement of net assets and statement of activities report the governmental activities for the Authority, which encompass all of the Authority's services, including resources and community enrichment. Revenue from other governments finance most of these activities.

Reporting The Authority's Most Significant Funds - Fund Financial Statements

The Authority's fund financial statements provide detailed information about the most significant funds - not the Authority as a whole. Some funds are required to be established by State law and by bond covenants. However, the Authority establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Authority use the following accounting approach:

Governmental Funds - All of the Authority's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflows and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Authority and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

SOUTHEAST PUBLIC SAFETY AUTHORITY

Management's Discussion and Analysis

The Authority As A Whole

Recall that the statement of net assets provides the perspective of the Authority as a whole. Table 1 provides a summary of the Authority's net assets as of March 31, 2006 and 2005:

TABLE 1	Governmental Activities	
	(In Thousands)	
	2006	2005
ASSETS		
Current and other assets	\$ 119.9	\$ 95.2
Capital assets - Net of accumulated depreciation	206.0	232.5
TOTAL ASSETS	325.9	327.7
LIABILITIES		
Current liabilities	15.0	16.2
Long-term liabilities	---	---
TOTAL LIABILITIES	15.0	16.2
NET ASSETS		
Invested in property and equipment - Net of related debt	206.0	232.5
Restricted	---	---
Unrestricted	104.9	79.0
TOTAL NET ASSETS	\$ 310.9	\$ 311.5

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Authority's governmental activities is discussed below. The Authority's net assets were \$310.9 thousand at March 31, 2006. Capital assets, net of related debt totaling \$206.0 thousand compares the original cost, less depreciation of the Authority's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Authority's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$104.9 thousand) was unrestricted.

The \$104.9 thousand in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Authority as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for years ended March 31, 2006 and 2005.

TABLE 2	Governmental Activities	
	(In Thousands)	
	2006	2005
REVENUE		
Program Revenue		
Charges for services	\$ 120.2	\$ 128.8
Grants and categoricals	15.2	10.8
General Revenue		
Property taxes	---	---
State aid	---	---
Intergovernmental revenue	209.8	379.5
Interest	---	---
Other	10.1	1.7
TOTAL REVENUE	\$ 355.3	\$ 520.8
FUNCTION/PROGRAM EXPENSES		
General Government	\$ ---	\$ ---
Public Safety	329.4	185.0
Roads	---	---
Community Enrichment	---	---
Interest	---	---
Depreciation (unallocated)	26.4	24.3
TOTAL FUNCTION/PROGRAM EXPENSES	\$ 355.8	209.3
INCREASE <DECREASE> IN NET ASSETS	\$ -.5	\$ 311.5

SOUTHEAST PUBLIC SAFETY AUTHORITY

Management's Discussion and Analysis

As reported in the statement of activities, the cost of all of our governmental activities this year was \$355.8 thousand. Certain activities were partially funded from those who benefited from the programs (\$120.2 thousand) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$15.2 thousand). We paid for the remaining "public benefit" portion of our governmental activities with our other revenues, such as interest and general entitlements.

The Authority experienced a decrease in net assets of \$.5 thousand. The key reason for the change in net assets was collection expenses. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 13.

As discussed above, the net cost shows the financial burden that was placed on the State and the Authority's taxpayers by each of these functions. Since charges for services constitute the vast majority of the Authority's operating revenue sources, the Board of Directors must annually evaluate the needs of the Authority and balance those needs with available unrestricted resources.

The Authority's Funds

As we noted earlier, the Authority uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the Authority is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Authority's overall financial health.

As the Authority completed this year, the governmental funds reported a combined fund balance of \$104.9 thousand, which is an increase of \$25.9 thousand from last year. The primary reasons for the increase were grant revenue and controlling expenditures.

General Fund Budgetary Highlights

Over the course of the year, the Authority amends its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Authority's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Capital Asset And Debt Administration

Capital Asset

At March 31, 2006, the Authority had \$206 thousand invested in capital assets that include vehicles and equipment.

	<u>March 31, 2006</u>	<u>March 31, 2005</u>
Vehicles	\$ 500,000	\$ 500,000
Equipment	<u>19,230</u>	<u>19,230</u>
Total Capital Assets	<u>519,230</u>	<u>519,230</u>
Less Accumulated Depreciation	<u>-313,230</u>	<u>-286,769</u>
Net Capital Assets	<u>\$ 206,000</u>	<u>\$ 232,461</u>

Other obligations include employee-compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors And Next Year's Budgets And Rates

Our Board of Directors and administration considered many factors when setting the Authority's 2007 fiscal year budget. The Authority's budget is very similar to the prior year. Personnel costs will increase, and governmental revenues will be increased to compensate. Revenues and expenditures will be very consistent with last year.

Contacting The Authority's Financial Management

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors of Southeast Public Safety Authority with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Fire Chief, P.O. Box 409, Union, Michigan 49130.

SOUTHEAST PUBLIC SAFETY AUTHORITY

Government-Wide Financial Statements

STATEMENT OF NET ASSETS

March 31, 2006

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Cash	\$ 87,869
Accounts Receivable	32,049
Due from Other Governmental Units	---
Prepaid Expenditures	---
Total Current Assets	<u>119,918</u>
Non-Current Assets	
Capital Assets	519,230
Less: Accumulated Depreciation	<u>-313,230</u>
Total Non-Current Assets	<u>206,000</u>
TOTAL ASSETS	<u>\$ 325,918</u>
 LIABILITIES AND NET ASSETS	
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 9,309
Accrued Payroll	<u>5,635</u>
Total Current Liabilities	<u>14,944</u>
Non-Current Liabilities	<u>---</u>
TOTAL LIABILITIES	<u>14,944</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	206,000
Restricted for Debt Service	---
Unrestricted	<u>104,974</u>
TOTAL NET ASSETS	<u>310,974</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 325,918</u>

See Accompanying Notes to Financial Statements

STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2006

		<u>Program Revenues</u>		<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS				
Governmental Activities				
General Government	\$ ---	\$ ---	\$ ---	\$ ---
Public Safety	329,385	120,186	15,249	-193,950
Roads	---	---	---	---
Community Enrichment	---	---	---	---
Interest on Long-Term Debt	---	---	---	---
Depreciation (Unallocated)	<u>26,461</u>	<u>---</u>	<u>---</u>	<u>-26,461</u>
Total Governmental Activities	<u>\$ 355,846</u>	<u>\$ 120,186</u>	<u>\$ 15,249</u>	<u>\$ -220,411</u>
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				\$ ---
Property Taxes, Levied for Debt Service				---
Porter Township Contribution				---
Governmental Revenue				209,806
Interest Earnings				---
Other				<u>10,111</u>
Total General Revenue				<u>219,917</u>
CHANGE IN NET ASSETS				-494
NET ASSETS - BEGINNING OF YEAR				<u>311,468</u>
NET ASSETS - END OF YEAR				<u><u>\$ 310,974</u></u>

See Accompanying Notes to Financial Statements.

SOUTHEAST PUBLIC SAFETY AUTHORITY

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

MARCH 31, 2006

	General	Other Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 87,869	\$ ---	\$ 87,869
Accounts Receivable	32,049	---	32,049
Due from Other Governmental Units	---	---	---
Due from Other Funds	---	---	---
Inventories	---	---	---
Prepaid Expenditures	---	---	---
TOTAL ASSETS	\$ 119,918	\$ ---	\$ 119,918
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 9,309	\$ ---	\$ 9,309
Accrued Salaries and Withholdings	5,635	---	5,635
Due to Other Funds	---	---	---
Deferred Revenue	---	---	---
TOTAL LIABILITIES	14,944	---	14,944
FUND BALANCES			
Reserved for Inventories	---	---	---
Designated for Future Purchases	22,806	---	22,806
Unreserved and Undesignated	82,168	---	82,168
TOTAL FUND BALANCES	104,974	---	104,974
TOTAL LIABILITIES AND FUND BALANCES	\$ 119,918	\$ ---	\$ 119,918
TOTAL GOVERNMENTAL FUND BALANCES			\$ 104,974
Amounts reported for governmental activities in the statement of net assets are different because:			
- Capital assets used in governmental activities are not financial resources, and are not reported in the funds:			
Cost of the Capital Assets			\$ 519,230
Accumulated Depreciation			<u>-313,230</u>
			206,000
- Long-term Liabilities are not due and payable in the current year and are not reported in the fund.			
Bonds Payable			---
Compensated absences			---
- Accrued interest is not included as a liability in governmental fund.			<u>---</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES			<u>\$ 310,974</u>

See Accompanying Notes to Financial Statements.

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2006

	General	Other Funds	Totals
REVENUE			
Federal Grants	\$ 7,369	\$ ---	\$ 7,369
Property Taxes	---	---	---
State Grants	---	---	---
Governmental Revenue	217,686	---	217,686
Charges for Services	120,186	---	120,186
Investment	---	---	---
Other	10,111	---	10,111
TOTAL REVENUE	355,352	---	355,352
EXPENDITURES			
General Government	---	---	---
Public Safety	311,631	---	311,631
Public Works	---	---	---
Recreational and Cultural	---	---	---
Debt Service	---	---	---
Capital Outlay	17,754	---	17,754
TOTAL EXPENDITURES	329,385	---	329,385
EXCESS OF REVENUE OVER EXPENDITURES	25,967	---	25,967
OTHER FINANCING SOURCES			
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES	---	---	---
NET CHANGE IN FUND BALANCES	25,967	---	25,967
FUND BALANCES - BEGINNING OF YEAR	79,007	---	79,007
FUND BALANCES - END OF YEAR	\$ 104,974	\$ ---	\$ 104,974

See Accompanying Notes to Financial Statements.

SOUTHEAST PUBLIC SAFETY AUTHORITY

Fund Financial Statements

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2006

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 25,967**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	-26,461	
Capital Outlay	<u>---</u>	-26,461

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid ---
- Repayment of note and bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) ---
- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds ---

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ -494**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY

The Southeast Public Safety Authority provides fire protection and rescue services to the Townships of Porter and Mason, of Cass County, Michigan operating under an intergovernmental service agreement. The Authority is directed by a Board consisting of representatives from each of the participating governmental entities.

B. BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Government-Wide Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

SOUTHEAST PUBLIC SAFETY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

B. BASIS OF PRESENTATION (CONTINUED)

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

GOVERNMENTAL FUND

General Fund - The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

C. BUDGETS AND BUDGETARY ACCOUNTING

The General Fund is under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Authority for these budgetary funds were adopted at the functional level.

D. CASH EQUIVALENTS

The Authority considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

E. FINANCIAL INSTRUMENTS

The Authority does not require collateral to support financial instruments subject to credit risk.

F. FUND EQUITY

Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

G. CAPITAL ASSETS

Capital assets, which include equipment and vehicles are reported in the applicable governmental column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized.

Equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Vehicles	5-20 years
Equipment	5-10 years

H. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

I. TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with United States generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

SOUTHEAST PUBLIC SAFETY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

J. ESTIMATES

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Authority, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority is in compliance with State law regarding their cash deposits.

The Authority maintains all of its cash deposits at one bank.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's cash deposits are as follows:

<u>Deposits</u>	<u>Book Value</u>	<u>Carrying Amounts</u>
Insured (FDIC)	\$ 87,869	\$ 76,826
Uninsured & Uncollateralized	---	---
Total Deposits	<u>\$ 87,869</u>	<u>\$ 76,826</u>

The differences between the book value and the bank carrying amounts are caused by deposits in transit and outstanding checks.

NOTE 3 - ACCUMULATED FUND DEFICITS

There were no accumulated fund deficits at March 31, 2006.

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Authority's Governmental activities was as follows:

	<u>Balance April 1, 2005</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance March 31, 2006</u>
Capital assets being depreciated:				
Vehicles	\$ 500,000	\$ ---	\$ ---	\$ 500,000
Equipment	19,230	---	---	19,230
Subtotal	<u>519,230</u>	<u>---</u>	<u>---</u>	<u>519,230</u>
Accumulated depreciation:				
Vehicles	286,050	23,750	---	309,800
Equipment	719	2,711	---	3,430
Subtotal	<u>286,769</u>	<u>26,461</u>	<u>---</u>	<u>313,230</u>
Net capital assets	<u>\$ 232,461</u>	<u>\$ -26,461</u>	<u>\$ ---</u>	<u>\$ 206,000</u>

Depreciation expense was not charged to activities as the Authority considers its assets to impact multiple activities and allocation is not practical.

SOUTHEAST PUBLIC SAFETY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - EXPENDITURES IN EXCESS OF BUDGET

PA 621 of 1978, Sect. 186(1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis. The approved budgets of the Authority for these budgetary funds are adopted at the activity level

During the period ended March 31, 2006, there were expenditures in excess of the amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Safety	\$ 257,806	\$ 311,631	\$ 53,825
Capital Outlay	7,000	17,754	10,754

NOTE 6 - LEASES

The Authority had no lease agreements at March 31, 2006.

NOTE 7 - ACCUMULATED UNPAID BENEFITS

At March 31, 2006, the amount of accumulated sick and vacation pay was immaterial and not booked.

NOTE 8 - POST-EMPLOYMENT BENEFITS

The Authority provides no post-employment benefits to retirees.

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (worker's compensation). The Authority has purchased commercial insurance for property loss, torts and workers' compensation claims.

NOTE 10 - STRUCTURE

Southeast Public Safety Authority was formed on October 1, 2004, to perform fire and rescue services for the Townships of Porter and Mason of Cass County.

An operating agreement between Southeast Public Safety Authority and the Townships has been signed which outlines the funding responsibilities for operations.

REQUIRED SUPPLEMENTAL INFORMATION

SOUTHEAST PUBLIC SAFETY AUTHORITY

General Fund

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED MARCH 31, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Federal Grants	\$ ---	\$ ---	\$ 7,369	\$ 7,369
State Revenue	---	---	---	---
Governmental Revenue	209,806	209,806	217,686	7,880
Investment	---	---	---	---
Charges for Services	55,000	55,000	120,186	65,186
Other	---	---	10,111	10,111
Transfers In	---	---	---	---
TOTAL REVENUE	264,806	264,806	355,352	90,546
EXPENDITURES				
General Government	---	---	---	---
Public Safety	214,806	257,806	311,631	-53,825
Public Works	---	---	---	---
Recreation and Culture	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	50,000	7,000	17,754	-10,754
Other Uses - Operating Transfers Out	---	---	---	---
TOTAL EXPENDITURES	264,806	264,806	329,385	-64,579
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES	---	---	25,967	25,967
BUDGETARY FUND BALANCE - April 1, 2005	79,007	79,007	79,007	---
BUDGETARY FUND BALANCE - MARCH 31, 2006	\$ 79,007	\$ 79,007	\$ 104,974	\$ 25,967

OTHER SUPPLEMENTAL INFORMATION

SOUTHEAST PUBLIC SAFETY AUTHORITY

All Governmental Funds

COMPARATIVE BALANCE SHEET

MARCH 31, 2006

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 87,869	\$ 52,330
Accounts Receivable	32,049	42,894
Due from Other Governments	---	---
Prepaid Expenses	---	---
TOTAL ASSETS	<u>\$ 119,918</u>	<u>\$ 95,224</u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts Payable	\$ 9,309	\$ 10,693
Accrued Payroll and Payroll Taxes	5,635	5,524
TOTAL LIABILITIES	14,944	16,217
FUND BALANCE	<u>104,974</u>	<u>79,007</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 119,918</u>	<u>\$ 95,224</u>

COMPARATIVE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED MARCH 31, 2006 AND 2005

	2006	2005
REVENUE		
Federal Grant Revenue	\$ 7,369	\$ 10,785
Local Grant Revenue	7,880	---
Governmental Revenue		
Porter Township - Contribution	---	261,876
Porter Township - Operations	132,395	84,088
Mason Township - Operations	77,411	33,488
Charges for Services		
Fire Runs	3,350	4,225
Ambulance Runs	116,836	124,585
Other Income	10,111	1,736
TOTAL REVENUE	355,352	520,783
OPERATING EXPENDITURES		
Salaries	96,049	55,577
Professional Fees	5,019	500
Benefits	3,415	6,024
Payroll Taxes	8,131	4,122
Insurance	12,452	12,487
Workers Compensation	6,650	5,181
Supplies	13,179	14,413
Office	3,054	1,382
Training	3,860	1,135
Utilities	8,226	4,832
Repairs and Maintenance	11,766	9,378
Dues and Subscriptions	2,531	910
Collection	64,007	47,209
Uniform	482	1,875
ALS Intercept	16,735	9,251
Travel and Entertainment	4,506	2,405
Vehicle Expense	13,815	7,463
Miscellaneous	2,909	822
Capital Outlay	17,754	256,810
Newberg Contract	34,845	---
Debt Service	---	---
TOTAL EXPENDITURES	329,385	441,776
INCREASE IN FUND BALANCE	25,967	79,007
FUND BALANCE - BEGINNING OF YEAR	79,007	---
FUND BALANCE - END OF YEAR	\$ 104,974	\$ 79,007

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Southeast Public Safety Authority

We have audited the financial statements of Southeast Public Safety Authority as of and for the period ended March 31, 2006, and have issued our report thereon dated May 2, 2006. We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Southeast Public Safety Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southeast Public Safety Authority's control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.



Karl L. Drake, P.C.
Certified Public Accountant

May 2, 2006